

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Compliance Review

# **San Carlos Unified School District No. 20**

Year Ended June 30, 2007

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**Debra K. Davenport**  
Auditor General

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**WILLIAM THOMSON**  
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December 5, 2008

Governing Board  
San Carlos Unified School District No. 20  
P.O. Box 207  
San Carlos, AZ 85550-0207

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2007, prepared by Cronstrom, Osuch & Company, P.C., to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. Additionally, several internal control deficiencies noted during our performance audit of the District had not been corrected as of our 24-month follow-up on that audit. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport  
Auditor General

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# INTRODUCTION

San Carlos Unified School District No. 20 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$18.1 million it received in fiscal year 2007 to provide this education.

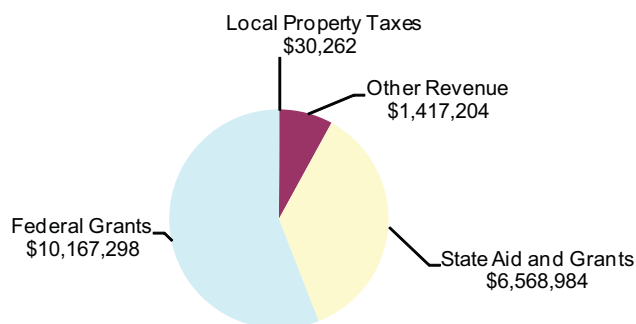
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2007, and the 24-month follow-up on the District's performance audit, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

## District Facts Fiscal Year 2007

County: Gila  
Number of Schools: 4

Number of Students: 1,156  
Grade Levels: K-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2006-2007* and *San Carlos Unified School District No. 20 Annual Financial Report Fiscal Year Ended June 30, 2007*.

# FINDING 1

## The District's controls over competitive purchasing and expenditures should be strengthened

The District may not have received the best possible value for the public monies it spent.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules or the USFR guidelines. For example, the District did not retain supporting documentation for expenditures requiring competitive sealed bids or proposals and did not always obtain oral or written price quotations for purchases requiring them. Further, the District did not always analyze the known requirements for an item or collection of items that, in the aggregate, would have required purchases from one vendor using competitive sealed bids or proposals, or written or oral price quotations.

Also, it is essential that the District follow proper expenditure-processing procedures. However, the District did not follow such procedures since expenditures were made from cash-controlled funds when sufficient cash was unavailable; supporting documentation for expenditures, including credit card receipts, was not always retained; purchase orders were frequently prepared after goods and services were received; and invoice amounts exceeded the allowable purchase order amount. Finally, the District used the Instructional Improvement Fund for payroll expenditures that were not allowable by statute.

## Recommendations

To strengthen controls over purchasing and expenditures and to comply with School District Procurement Rules and USFR guidelines, the District should:

- School District Procurement Rules provide the requirements for:
  - Competitive sealed bids for goods and services in excess of \$33,689.
  - Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Retain all supporting documentation for expenditures requiring competitive sealed bids or proposals as required by the School District Procurement Rules.
- Obtain oral price quotations from at least three or more vendors for purchases costing at least \$5,000 but less than \$15,000 and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689, and retain documentation of all quotations received. If three quotations cannot be obtained, the District should document the vendors contacted and their reasons for not providing quotations.

- Determine whether to request oral or written price quotations or issue invitations for bids or requests for proposals by analyzing the known requirements for an item or a collection of items that, in the aggregate, may result in purchases above the applicable thresholds.
- Prepare and approve purchase orders prior to ordering goods and services.
- Verify that sufficient cash is available in cash-controlled funds before authorizing expenditures.
- Retain documentation such as purchase requisitions, purchase orders, receiving reports, and vendor invoices to adequately support expenditures.
- Retain documentation to support all credit card expenditures and require employees using district credit cards to promptly submit receipts to the business office. Receipts should indicate the employee making the purchase and the specific district purpose for the expenditure.
- Ensure purchases do not exceed approved purchase order amounts. For purchases in excess of approved purchase orders, the existing purchase order should be revised and re-approved or a new purchase order should be prepared and approved prior to ordering goods or requesting services.
- Ensure that no more than 50 percent of the Instructional Improvement Fund monies are used for teacher compensation increases and classroom size reduction. The remaining monies must be used for the following maintenance and operation purposes: dropout prevention programs and instructional improvement programs, including programs to develop minimum reading skills for students by the end of the third grade.

USFR pages VI-G-2 through 5 describe expenditure processing procedures.

# FINDING 2

## The District should accurately record and report its student attendance

The District may not have received the appropriate amount of funding since the District did not report membership and absences correctly.

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to ensure that the District receives the appropriate amount of state aid. However, the District did not calculate absences correctly, and absences in the District's computerized attendance records did not always agree to teachers' attendance registers. In addition, dates recorded on the student entry and withdrawal forms and teachers' attendance registers did not always agree with the dates recorded in the District's computerized attendance records. Also, based on the student entry date in the District's computerized attendance records, membership did not always begin on the first day of the student's actual attendance, and students with ten consecutive unexcused absences were not always withdrawn correctly. Finally, membership and absence information reported to ADE did not always agree to the District's computerized attendance records, and the information was not always submitted to ADE every 20 school days.

### Recommendations

To help ensure that the District receives the correct amount of state funding, the District should:

- Calculate absences for preschool students with disabilities based on 360 minutes per week of required instruction in accordance with ADE's *Instructions for Required Reports*.
- Calculate attendance for students enrolled in first through eighth grades, if attendance is based on half-days, as follows:
  - Attendance of at least 3/4 of the instructional time scheduled for the day should be counted as a full day of attendance.
  - Attendance for at least 1/2, but less than 3/4, of the instructional time scheduled for the day should be counted as a half day of attendance.
- Ensure absences for high school students are recorded in accordance with the chart provided in ADE's *Instructions for Required Reports*.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

- Calculate absences for Joint Technological Education District students in accordance with the chart provided in ADE's *Instructions for Required Reports* based on the number of district classes the student is enrolled in and attends.
- Ensure absences recorded in the District's computerized attendance records agree with the teachers' attendance registers.
- Assign an employee to verify that entry and withdrawal dates recorded in the District's computerized attendance records agree to the student entry and withdrawal forms, teachers' attendance registers, and that membership begins on the first day of actual attendance.
- Withdraw students with ten consecutive unexcused absences as of the last day of attendance and maintain documentation to support the withdrawal.
- Require a second employee to verify membership and absences reported to ADE to ensure they agree with the District's computerized attendance records.
- Submit membership and absence information electronically to ADE at least once every 20 school days through the last day of instruction.

# FINDING 3

## The District should improve controls over food service and student activities

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

Because of the relatively high risk associated with transactions involving cash, school districts should establish and maintain effective internal controls to safeguard cash.

These controls should require that cash transactions are properly supported and that bank accounts are used as prescribed by statute. However, the District did not have strong controls over its cash transactions. Specifically, the District did not investigate a cash shortage of food service receipts and did not remit food service monies to the County Treasurer at least monthly.

Also, the District holds student activities monies raised through students' efforts for safekeeping. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, the Governing Board did not establish proper oversight. For example, the District did not always prepare cash receipt forms at the time monies were received or deposit student activities monies in a timely manner. In addition, the District did not always maintain documentation to support student activities disbursements.

## Recommendations

To improve controls over food service monies and student activities, the District should:

- Prepare a daily cash reconciliation report to document a reconciliation of food service sales to cash collected and investigate any cash overages or shortages.
- Remit monies deposited into the food service clearing bank account to the County Treasurer at least monthly.
- Prepare, in duplicate, prenumbered and numerically controlled cash receipt forms for each cash payment received.
- Deposit cash receipts intact daily, if significant, or at least weekly into the student activities bank account.
- Retain documentation to support student activities disbursements, including club meeting minutes indicating student approval, requisitions, purchase orders, receiving reports, and vendor invoices.

USFR pages X-H-9 through 11 describe disbursement processing procedures.

# FINDING 4

## The District's controls over payroll processing should be strengthened

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid the correct amount. However, the District did not have adequate controls over payroll processing. Specifically, the District's personnel files did not always include employment contracts, I-9 forms, and properly completed withholding forms. Also, the District did not ensure that the employees' pay agreed to the employees' contracted pay amounts. Further, state retirement was not always withheld from employees' pay.

The District did not ensure that employees' pay agreed to the contracted pay amounts.

### Recommendations

To strengthen controls over payroll processing, the District should withhold state retirement from the pay of all eligible employees, and ensure that gross pay amounts agree to employees' contract amounts. In addition, the District should maintain accurate and complete personnel files, including employee contracts, Employment Eligibility Verification forms (Form I-9), and federal and state withholding allowance forms.

The District's personnel files should include the documents listed on USFR pages VI-H-2 through 4.